

## Message Text

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INFO OCT-01 ISO-00 FEA-01 ACDA-07 CIAE-00 INR-07 IO-13

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ERDA-05 AID-05 TRSE-00 XMB-02 /079 W

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R 240758Z SEP 76

FM AMEMBASSY BELGRADE

TO SECSTATE WASHDC 8163

INFO AMCONSUL ZAGREB

C O N F I D E N T I A L SECTION 1 OF 2 BELGRADE 6262

E.O. 11652: GDS

TAGS: TECH, TGEN, ESTC, YO

SUBJECT: KRSKO PROGRESS REPORT

FOLLOWING REPORT RECEIVED FROM AMCONGEN ZAGREB:

SUMMARY: WESTINGHOUSE PROJECT DIRECTOR, DON PARSONS, BRIEFED CONGEN AND EMBASSY OFFICERS SEPT. 16 ON STATUS OF KRSKO NUCLEAR POWER PROJECT. OF MAJOR CONCERN IS USG FAILURE ISSUE U.S. NUCLEAR EXPORT LICENSE. NUCLEAR EQUIPMENT NEEDED IN NEAR FUTURE ON SIT NOW PILING UP IN STORAGE IN U.S. ON POSITIVE SIDE, PROJECT FINANCES HAVE BEEN UNBLOCKED ALTHOUGH CUSTOMER HAS YET TO FACE QUESTION OF FINANCING LARGE COST OVERRUNS, RESULTING PRINCIPALLY FROM INCREASED COSTS IN YUGOSLAVIA. PARSONS SAID WESTINGHOUSE HAVING SOME DIFFICULTY FULFILL COUNTERTRADE REQUIREMENT AND PROJECT HAS EXPERIENCED SOME DELAY DUE TO YUGOSLAV INABILITY FURNISH EQUIPMENT AND MAKE DECISIONS IN TIMELY FASHION. WESTINGHOUSE WORKING HARD TO MINIMIZE DELAY, AND PARSONS THINKS PLANT CAN GO ON STREAM IN DECEMBER 1979, 6 MONTHS LATE, PROVIDING NUCLEAR EXPORT LICENSE ISSUED PROMPTLY. END SUMMARY.

1. MR. PARSONS OPENED WITH THE OBSERVATION THAT HE WANTED TO PROVIDE ONE OF HIS PERIODIC DE-BRIEFINGS FOR U.S. GOVERNMENT REPRESENTATIVES ON THE SCENE. HE WAS NOT CONFIDENTIAL

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REQUESTING ACTION OR ASSISTANCE BUT RATHER MERELY INFORMING

THOSE PRESENT HOW THINGS STOOD AT KRSKO.

2. THE MAJOR CONCERN AT THE MOMENT IS THE LACK OF A U.S. EXPORT LICENSE FOR THE NUCLEAR EQUIPMENT. ON AUGUST 5 PARSONS GAVE THE INVESTOR (VIZ., THE CONSORTIUM COMPRISED OF THE CROATIAN AND SLOVENE ASSOCIATIONS OF ELECTRIC GENERATING UTILITIES) A FORCE MAJEURE LETTER WITH 30 DAYS ADVANCE NOTICE. IN OTHER WORDS, ANY TIME AFTER SEPTEMBER 5 FORCE MAJEURE CAN BE INVOKED. PARSONS STATED HE DOES NOT INTEND TO USE THE LETTER AT THIS TIME, BUT HE HAS TO PROTECT HIMSELF AND HIS ORGANIZATION BY DOCUMENTING THE CIRCUMSTANCES BEYOND HIS CONTROL WHICH ULTIMATELY MAY CAUSE DELAYS IN THE COMPLETION OF THE PROJECT AND BRING FUTURE CLAIMS AGAINST WESTINGHOUSE. HE NOTED THAT SOME SHIPMENTS OF EQUIPMENT NOT UNIQUELY NUCLEAR IN NATURE HAVE BEEN MADE UNDER GENERAL LICENSE, AND ONE SHIPMENT HAS BEEN MADE UNDER A SPECIAL PERMIT. THE SITUATION IS RAPIDLY BECOMING CRITICAL WITH MORE THAN ONE MILLION DOLLARS WORTH OF NUCLEAR INSTRUMENTS WHICH HAVE BEEN DELIVERED BY U.S. SUBCONTRACTORS TO WESTINGHOUSE IN THE U.S. HAVING TO BE WAREHOUSED IN THE U.S. PENDING RECEIPT OF THE EXPORT LICENSE. FOR THE MOMENT, THIS EQUIPMENT IS NOT NEEDED ON THE SITE, AND PARSONS CANNOT SAY THAT THE PROJECT HAS BEEN DELAYED BECAUSE OF THE LACK OF AN EXPORT LICENSE. HOWEVER, IN A MATTER OF A FEW WEEKS, SOME EQUIPMENT SUBJECT TO LICENSING WITLL BE NEEDED. UNDER THE TERMS OF WESTINGHOUSE'S CONTRACT, OBTAINING THE LICENSE IS THE INVESTOR'S RESPONSIBILITY. WITH THE ISSUANCE OF PARSONS'S FORCE MAJEURE LETTER, THE FACT THAT THERE IS A PROBLEM WHICH MAY CAUSE DELAYS IS BEGINNING TO REGISTER WITH THE INVESTOR.

3. PARSONS CONTINUED THAT A POSITIVE DEVELOPMENT SINCE THE LAST MEETING WITH U.S. GOVERNMENT REPS HERE IS THE UNBLOCKING OF FINANCES. FUNDS ARE MOVING NOW AND OUGHT TO BE ADEQUATE UNTIL SUCH TIME AS THE EFFECT OF THE COST OVERRUNS IS FELT. WESTINGHOUSE ESTIMATES THAT THE OVERRUNS AT PRESENT INCLUDE ABOUT DOLLARS 150 MILLION IN ESCALATION OF COSTS FOR YUGOSLAV EQUIPMENT, ERECTION, AND CIVIL WORKS, DOLLARS 48 MILLION IN CUSTOMS DUTIES, AS WELL AS SOME DOLLARS 37 MILLION FOR IMPORTED EQUIPMENT AND INITIAL FUEL COSTS, PLUS AN UNSPECIFIED AMOUNT FOR CHANGE ORDERS. CONFIDENTIAL

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INVESTOR TENDS TO BLAME THE OVERRUNS ON POOR COST ESTIMATES BY WESTINGHOUSE. THEY FAIL TO APPRECIAT THAT THE OVERRUNS REALLY RESULT FROM FACTORS BEYOND THE CONTROL OF WESTINGHOUSE AND THE BULK ARE ATTRIBUTABEL SOLELY TO INCREASES IN THE COST OF WORK IN YUGOSLAVIA.

4. ON THE QUESTION OF THE SOURCE OF ADDITIONAL FINANCING TO COVER THE OVERRUNS, THE CITY BANK CONSORTIUM HAS REJECTED

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ANY FINANCIAL PARTICIPATION AS A GROUP ABOVE THE PRESENT LEVEL. EXIM BANK IS BEING APPROACHED FOR A SMALL AMOUNT FOR ADDITIONAL U.S. COSTS, BUT THE YUGOSLAVS WILL HAVE TO ARRANGE THE BULK. PARSONS HAS BEEN TOLD THAT THE REPUBLICS OF CROATIA AND SLOVENIA HAVE GIVEN AN UNCONDITIONAL GUARANTEE THAT SUFFICIENT ADDITIONAL FINANCING WILL BE FOUND WITHIN YUGOSLAVIA TO ASSURE COMPLETION OF THE PROJECT. THIS, IN FACT, WAS A REQUIREMENT OF CITYBANK BEFORE IT WOULD MAKE THE JUNE AND JULY DISBURSEMENTS FROM ITS CREDIT. PARSONS WAS SURPRISED AT HOW QUICKLY THE YUGOSLAVS CAME TO GRIPS WITH THIS SITUATION AND PRODUCED THE GUARANTEES FOR CITYBANK. BUT HE NOTED THAT THE YUGOSLAVS WERE SPEAKING OF AN ADDITIONAL DOLS 175 MILLION TO BE GUARANTEED WHILE STILL MORE WILL BE NEEDED.

5. CERTAIN OTHER LONG-STANDING PROBLEMS CONTINUE VIRTUALLY WITHOUT CHANGE, TO WIT: (A) THE CONSORTIUM OF YUGOSLAV SUPPLIERS IS STILL UNABLE TO MAKE EFFECTIVE, TIMELY AND COMPETITIVE QUOTES ON ABOUT 75 PERCENT OF THE EQUIPMENT WHICH MIGHT BE MANUFACTURED IN YUGOSLAVIA. PARSONS IN THIS CONNECTION MENTIONED ELECTRICAL BREAKERS WITH RADE KONCAR HAD ORDERED FROM SIEMENS; PARSONS SCOTCHED THE ORDER ON THE GROUNDS THAT THE EQUIPMENT SHOULD EITHER COME FROM WESTINGHOUSE OR BE MANUFACTURED WITHIN YUGOSLAVIA BUT NOT ORDERED FROM A THIRD-COUNTRY COMPETITOR; (B) JANEZ DULAR, AS GENERAL

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DIRECTOR, STILL LACKS AUTHORITY TO MAKE DECISIONS AND ISSUE ORDERS--NO CHANGE ORDERS, FOR EXAMPLE, HAVE BEEN APPROVED; AND (C) THE COUNTERTRADE OPERATION HAS YET TO SWING INTO EFFECTIVE FULL-SCALE OPERATION. PROGRES, THE YUGOSLAV AGENT OF WESTINGHOUSE, HAS CONTRACTED TO FULFILL THE DOLLARS 60 MILLION OBLIGATION FOR A 10 PERCENT COMMISSION, OF WHICH 80 PERCENT IS GIVEN TO YUGOSLAV SUPPLIERS AS AN INCENTIVE TO REGISTER THEIR EXPORTS AS COUNTER TRADE FOR THE U.S. FIRM. (COMMENT: THIS IS A RATHER COMMON ARRANGEMENT IN YUGOSLAVIA, ALTHOUGH THE PERCENTAGE CHARGED AS COMMISSION IS RATHER HIGH.) HOWEVER, IT TURNS OUT THAT 50 PERCENT BY DOLLAR VALUE OF THE COUNTERTRADE ITEMS MUST COME FROM MEMBERS OF A SLOVENE AND CROATION GROUPING OF POWER EQUIPMENT MANUFACTURES AND A CEILING HAS BEEN IMPOSED ON WHAT ANY ONE MEMBER CAN SUPPLY. SINCE THIS ARRANGEMENT LIMITS THE AVAILABILITY OF GOODS FOR COUNTERTRADE, IT MEANS THAT IT WILL PROBABLY BE EXTREMELY DIFFICULT FOR WESTINGHOUSE TO ACHIEVE ITS COUNTERTRADE AND THAT THEY WILL HAVE TO PAY A NON-COMPLIANCE PENALTY EQUAL TO 10 PERCENT OF THE UNFILLED AMOUNT TO THE CONSORTIUM OF INVESTORS, AS STIPULATED IN THE CONTRACT, WHEREAS PROGRES WILL HAVE TO PAY ONLY 3 PERCENT OF ANY GAP TO WESTINGHOUSE. (COMMENT: RESTRICTING COUNTERTRADE TO PRODUCTS IN SAME LINE AS THOSE MANUFACTURED BY FOREIGN SUPPLIER, IN THIS CASE POWER EQUIPMENT, IS WHAT THE YUGOSLAVS OFTEN ASK FOR, BUT IT IS SOMEWHAT UNUSUAL FOR THE FOREIGN FIRM TO GO ALONG WITH THE LIMITATION. ANOTHER U.S. MANUFACTURER, FOR EXAMPLE, PLACED YUGOSLAV HAMS, SHOES AND OTHER CONSUMER GOODS ABROAD AS COUNTERTRADE FOR AIRCRAFT.)

6. PARSONS THINKS IT POSSIBLE FOR THE PLANT TO BE ON LINE IN DECEMBER 1979, ONLY SIX MONTHS LATE, PROVIDED THE NUCLEAR LICENSE IS ISSUED WITHOUT FURTHER DELAY.  
SILBERMAN

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## Message Attributes

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**Copy:** SINGLE  
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